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Distribution Strategy: A case study of Plantui Oy

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Distribution strategy:
A case study of Plantui Oy

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Distribution strategy: A case study of Plantui Oy

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Plantui is a Finnish start-up company focusing on enabling customers to grow plants at home. Plantui operates in the field of design and food tech. Plantui's product offering consists of the Smart Garden, a device in which the plants are grown. Another product which Plantui offers to its customers is the plant capsules from which the plants are grown, with the help of the Smart Garden device. Plantui's selling proposition is to offer a product to customers in which they can grow edible greens year round. Currently Plantui has up to 30 different plant capsules in their selection. The product is sold in four countries at the moment and the company is expanding.

The objective of this thesis is to establish a distribution strategy for Plantui to use in their business. Currently, the products are distributed through resellers in various countries. As Plantui's business is growing, new distribution methods have to be considered to be able the company to grow steadily. To facilitate this, a step-by-step illustration has been developed by Plantui to easily tell when the distribution method should be reconsidered. The step-by-step model shows the possible distribution methods and the number of points of sales. As the sales and number of points of sales grows, the distribution method is to be reconsidered between the steps to match the demand.

Each of the step-by-step model's distribution methods has been analysed through seven different theories. A SWOT (strengths, weaknesses, opportunities, threats) analysis was conducted. McCarthy's 4Ps model was also used to analyse the distribution methods. The 4Ps consist of product, price, place and promotion, and each of these factors was individually considered. Also Lauterborn's 4Cs model was utilised in the analytical phase. The 4Cs model consists of consumer, cost, convenience and communication. A SWOT analysis was used to make a channel comparison and an Ansoff matrix helped to clarify the current and future situation of Plantui's business strategy alternatives. In addition, the Business model canvas was used to connect theory and the empirical sections together. The lean start-up model by Eric Ries was introduced, because Plantui uses it as a part of their business model. The last parts of the theoretical section consist of general distribution theories by different authors to understand what makes an efficient distribution strategy.

The thesis was implemented as an illustrative case study. The research data gathered from book, online, interviews and seminar sources support the findings.

The authors' recommendation for Plantui is to utilize conventional distribution channels together with their own web shop. Using this method, all of the distribution channels would support each other. People would be able to get familiar with Plantui and its products in physical storefronts and the Plantui brand, and they could also purchase the products from Plantui's own web shop.

Keywords start-up, distribution, distribution strategy, marketing, channels

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Jakelustrategia. Tutkinnan kohteena oleva yritys: Plantui Oy

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Plantui on suomalainen start-up yritys joka antaa asiakkaille mahdollisuuden kasvattaa omat vihertuotteet kotona. Plantui operoi design ja ruoka teknologia alalla. Plantuin tuotetarjonta sisältää Smart Garden älypuutarhan, minkä avulla kasvit kasvatetaan. Toinen tuote jota Plantui tarjoaa asiakkailleen ovat kasvikapselit. Kasvikapselit kasvatetaan Smart Garden älylaitteen avulla. Plantuin myyntiehdotus on tarjota asiakkaille tuote jolla he voivat kasvattaa tuoreita viherkasveja vuoden ympäri. Tällä hetkellä Plantuilla on noin 30 eri kasvikapselia valikoimassaan.

Tämän opinnäytetyön tavoite on luoda jakelustrategia Plantuille, jota he voivat käyttää liiketoiminnan suorittamisessa. Tällä hetkellä tuotteet levitetään eri jälleenmyyjien kautta eri maissa. Plantuin liiketoiminnan kasvaessa uusia jakelumenetelmiä pitää harkita, jotta Plantui voi jatkaa tasaista kasvuaan. Plantui kehitti porrastetun jakelumenetelmämallin. Tätä mallia käyttäen, Plantui pystyy helposti ottamaan huomioon mitä jakelumenetelmää pitäisi käyttää missäkin liiketoiminnan vaiheessa. Porrastettu menetelmä näyttää mahdolliset jakelumenetelmät ja myyntimäärät. Myyntimäärien kasvaessa, eri jakelumenetelmiä pitää vertailla portaiden välissä.

Jokainen porrastetun mallin jakelumenetelmistä on analysoitu seitsemää teoriaa apuna käyttäen. SWOT analyysi tehtiin jokaisesta jakelumenetelmästä. SWOT analyysi koostuu vahvuuksista, heikkouksista, mahdollisuuksista ja riskeistä (strengths, weaknesses, opportunities ja threats). McCarthyn kehittämää 4P mallia käytettiin myös analyysissa. 4P malli koostuu tuotteesta, hinnasta, paikasta ja mainonnasta (product, price, place ja promotion. Lauterbornin kehittämä 4C malli koostuu asiakkaasta, kustannuksista, helppoudesta ja kommunikaatiosta (consumer, cost, convenience ja communication). SWOT-analyysiä käytettiin eri jakelukanavien vertailuun. Ansoff matrix auttaa selvittämään Plantuin yritysstrategian nyky- ja tulevaisuuden tilanteen. Business model canvas selvittää Plantuin yritystoimintaa ja sitoo teoriaa sekä empiiristä tutkimusta yhteen. Lean start-up malli esitetään koska Plantui käyttää sitä liiketoimintamallina. Viimeinen teoriaosuus kuvaa yleiset jakeluteoriat eri julkaisijoilta. Nämä kuusi teoriaa on sidottu tutkimukseen analyysien avulla ja auttavat selvittämään mitkä asiat muodostavat tehokkaan jakelustrategian.

Tämä opinnäytetyö on toteutettu käyttämällä havainnollista tapaustutkimusta. Tutkimustieto on kerätty kirja-, internet-, haastattelu- ja seminaarilähteistä tukemaan tuloksia.

Tutkimuksien tekijät suosittelevat, että Plantui hyödyntää nykyisten tavanomaisten kanavien kanssa omaa verkkokauppaa. Näin kaikki jakelukanavat tukevat toisiaan, ihmiset voivat tutustua Plantuin tuotteisiin ja brändiin kivitalkakaupoissa sekä voivat tilata Plantuin tuotteita myös yrityksen oman verkkokaupan kautta.

Avainsanat start-up, jakelu, jakelustrategia, markkinointi, kanavat

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1 Introduction

The first part of the thesis will introduce the reader to the subject of the thesis and the case company Plantui. Also two market trends are explained, which affect Plantui's business operation. Background of the case company will be discussed briefly. Then the objectives of the thesis, research and theoretical approaches will be presented.

1.1 Background of Plantui

Plantui is a Finnish start-up company based in Turku, Southern Finland. Industrial designer Janne Loiske founded the company in 2012. The company focuses on indoor gardening and has developed a special device called Smart Garden for it along with a wide variety of seed capsules that fit the device. The product has been especially designed to be used in urban homes where there are no other platforms to grow plants. The local food and organic food is a fast growing trend, and together with urbanisation they create new markets for home growing of plants. Despite the poor economic situation the demand for herbs and spices is growing fast (CBI 2010). This product is targeted to urban people interested in growing plants and herbs ethically and locally. The product was introduced to the market starting from Denmark in summer 2014. Currently Plantui is selling its product through resellers in Finland, Sweden, Denmark and Germany and in online selling platforms.

1.1.1 Global e-commerce's effect on Plantui's business operation area

Globalisation is advantageous to Plantui as the Internet makes the product available to people around the world. Globalisation is related to the thesis subject, and it is included in the distribution strategy chapter. Globalisation is the process that links different people, cities, regions and countries together. Globalisation is not an actual trend but rather a long-term change in how technology has brought everything available to almost everybody via the Internet. One can purchase, communicate and acquire information across the globe any time of the day. National and international boundaries have become smaller and the people across the world are more connected than ever before (Unesco 2010). The mixture of technological advancement, lower logistical expenses and policy liberalisation has resulted to increased trade and financial flows between countries. This has important consequences for the functioning of the global economy. Globalisation creates massive benefits and opportunities, but it also means that all countries and companies face increased competition in the market place (European Commission 2015).

1.1.2 Urbanisation's effect on Plantui's business operation

Urbanisation is defined as population shift from rural areas to urban areas. The outcome of this population shift is the formation and growing of cities. Urbanisation began when the industrial revolution started when workers moved from rural areas to cities to be able to work in factories (European Commission 2014).

Urbanisation is a worldwide trend and currently more than half of the world's population live in cities. Urbanisation is especially strong in Asian countries but also the rest of the world has begun to follow the trend (Wiktionary 2014). In Finland the urbanisation percent of population is 84,1% (CIA 2015).

For the first time in history, the majority of Earth's population lives in cities around the world. With the people moving to cities, the trend of consuming food that has been produced close-by will also gain increasing popularity. Growing of food has already moved to cities and urban farming will grow in size during the coming years (National Geographic 2015). Urbanisation as phenomena is necessary for Plantui to increase customer base; the whole business idea is based on urbanisation.

1.2 Purpose of the thesis

The objective of this thesis is to create a thorough study of distribution strategy for Plantui. The distribution strategy will take five different distribution methods into consideration and discussed in detail. They are: retailers, chains, agents, distributors and own web shop. The purpose of the distribution strategy is to find the most efficient distribution method for Plantui in its current state of business as a start-up company. Distribution strategy has an ever-increasing importance in efficient marketing strategy, which is the reason it was selected as a research topic (Ferrell & Hartline 2011).

1.3 Research problem

The research problem for this thesis is to answer the question: "What is the most efficient way for Plantui to distribute its products. This relates to the whole purpose of the thesis.

1.4 Research approach

Research is defined as a study performed using different methods. Research follows a framework that systematically covers each necessary step to perform a research. The primary reason to perform a research is to answer a specified research question or to prove a set hypothesis.

The research approach for this thesis is an illustrative case study, which is a descriptive tool that can be used when the data is not eligible for mathematical analysis. Research was conducted by using book, electronic, interview and seminar sources.

The different distribution strategies will be compared using SWOT and Ansoff matrix analyses. The research problem is answered by making an illustrative case study using the theories and analyses that were used in this thesis. Also 4Ps and 4Cs analyses will be used to analyse the distribution methods. The distribution strategy shows options, which the company can choose to follow if stated efficient for a certain state of business. The distribution strategy that will be presented through this thesis consist of the resource materials, observation, and studying the options.

1.5 Theoretical approach

The theoretical framework of this thesis consists of seven elements: McCarthy's 4Ps, Lauterborn's 4Cs, SWOT analysis, general distribution theories, The Lean startup model and Ansoff matrix. Plantui's distribution strategy will be analysed based on the aforementioned theories. Ansoff matrix was used to define the current situation as well as the future of Plantui's business. Business model canvas is used to connect theory and practice together and to give a general view of the company's operating procedures. Using these theories in combination with the empirical part, the research problem was answered and the thesis purpose was fulfilled. The theories helped to understand the critical elements of the distribution and what makes a valid distribution strategy.

1.6 Framework of the thesis

The thesis is first introduced in the introduction chapter to define the background, purpose and theoretical approach to the thesis. The next chapter introduces the background for the theory, and then the theories used in the thesis are explained. The third part describes the research approach, which was an illustrative case study. The following chapter is the empirical part, where Plantui is explained in more detail and SWOT analyses are made of the distribution channels that Plantui is using or will be using in the future. After the empirical part, the recommendations for Plantui are described. The last parts of the thesis are conclusions, theoretical linkage, summary and references.

2 Theoretical background

In this chapter, authors will go through the following theories related to marketing and distribution strategies. The first two theories are 4Ps and 4Cs models, which overlap together but are from different perspectives. The 4Ps model is more from Plantui's point of view and 4Cs model is more customer-centric view. The following theory is SWOT analysis, which was used as a tool to analyse different distribution channels. The next theory is Ansoff matrix, which was used to analyse Plantui's current situation and predict its value offering in the future. A business model canvas is explained. The next theories are the lean start-up model that Plantui uses for its business model and market situation and trends theory. The last part of the theory is general distribution strategies by different authors.

2.1 Marketing mix 4Ps

"Marketing mix" is a general phrase used to describe the different kinds of choices organizations have to make in the whole process of bringing a product or service to market. The 4Ps is one way of defining the marketing mix, and was first expressed in 1960 by E J McCarthy.



Figure 1 Marketing Mix 4Ps
(Mindtools 2014)

2.1.1 Product

The product part of the marketing mix is the product that the company is offering for sale on a certain market. 'The product gives perceived value for the customer'. In order to understand the perceived value the customer receives from interacting with the product, it is important to think from the customer's point of view (Mindtools 2014).

2.1.2 Place

'The place of the product sold is the second component of the marketing mix. The place is another expression for marketing channels, how does the organization operate in a market.' In this thesis, this component of the marketing mix is crucial to discover the relationship with the marketing channels and customers. The place factor is an important decision the company has to make to have cost-effective ways to reach the customers (Mindtools 2014).

2.1.3 Price

The price of the product is the third part of the marketing mix. 'Price is differentiated from the other marketing mix components by capturing value instead of creating it. The price reflects the value that the marketer believes the product is worth in the market. The other marketing mix P's choices shape the price.' There are many different pricing strategies and models used in the field of marketing (Mindtools 2014).

2.1.4 Promotion

The promotion part of the marketing mix is how the product is promoted to the prospective customers. 'While promotion is not the same as marketing, promotion is essential part marketing's value creation procedure.' The promotion gives the organisation a possibility to communicate to the customer the product's value proposition and make customers aware of it (Mindtools 2014).

2.2 Marketing mix 4C's

The marketing mix 4Cs is often used together with the 4Ps to complement each other. It is also effective to have to alternative theories for comparison. The 4Cs are consumer, cost, convenience and communication. The 4Cs is used more in niche marketing, which is suitable for this thesis. The theory is more customer-orientated than 4Ps theory.



Figure 2 Marketing Mix 4Cs
(Learnmarketing 2015)

2.2.1 Consumer

The customer is the prime focus of this theory approach. The product itself is not the main focus like on 4Ps, instead the customer is. The customers' demand has to be met with supply, and products are often customisable. For this reason the approach is not as effective for mass markets as it is for smaller target segments (Marketing91 2015).

2.2.2 Cost

Cost is equivalent for the pricing in classical marketing mix approach. The cost has large influence in customers' buying behaviour and since the focus is on customer, the cost component needs great consideration (Marketing91 2015).

2.2.3 Convenience

'Convenience part corresponds the distribution part in the traditional marketing mix. For customers, the convenience of purchasing is an important factor in their buying behaviour.' This is especially true for niche market; customers are often willing to pay more to have a positive buying experience. The balance between the convenience for customers and cost-efficiency is an important aspect for organizations to consider (Marketing91 2015).

2.2.4 Communication

The communication is similar to traditional marketing mix. However the segmentation, targeting and positioning is more exact in the 4C's approach compared to the 4P's approach (Marketing91 2015).

2.3 SWOT analysis

SWOT analysis is a well-known and widely adopted strategic planning tool. SWOT analysis evaluates the strengths, weaknesses, opportunities and threats of the objective, in this case Plantui. In this report the SWOT analysis is used as a tool to analyse the distribution channels Plantui is utilizing or will utilize in the future. Various factors of each distribution channel will be evaluated through SWOT analysis. SWOT analysis monitors the strengths and weaknesses that are of internal origin from the company itself. SWOT analysis also monitors opportunities and threats, which are of external origin from the outside environment of the company (Armstrong, Kotler 2001).

2.4 Ansoff matrix

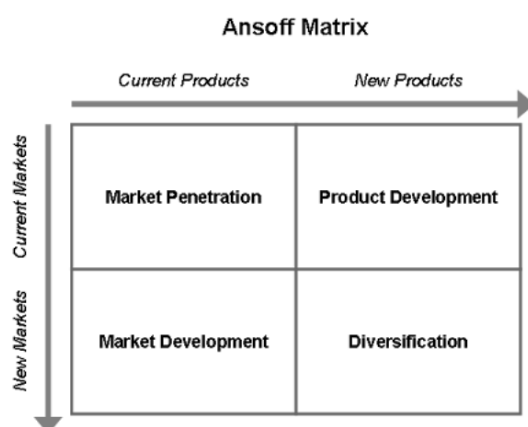


Figure 3 Ansoff Matrix
(Fransesco Fano 2012)

According to McDonald & Meldrum (2013) the Ansoff Matrix is an analytical tool used in marketing. The matrix is used for structured idea generation and thinking. The main purpose of the Ansoff matrix is to focus on the relationship a company has to manage: procurement of products for the customers. Disregarding the products placement on the market, the product will either be an already existing one or a new product for the existing market. The customers follow the same procedure, they are either already existing customers on the market in question or they are new customers that are unfamiliar with the market. When using the An-

soff matrix, the company is encountering four different options according to which they decide how to react. The four options are:

- Focusing on the current products for the existing markets
- Searching for new products for the current markets
- Establishing new market for the already existing product
- Expanding into new products for new markets

2.5 Business model canvas

Business model canvas is a tool used by companies to define the most important points in their business. The model helps to understand how a certain business operates in a one-page illustration. Business model canvas can be used to develop new business ideas or to further develop already existing businesses. Business model canvas can be modified to suit a specific need of a business.

Business model canvas takes nine separate entities into consideration, they are: key partners, key activities, key resources, cost structure, value propositions, customer relationships, channels, customer segments. The aforementioned entities are discussed in more detail in the business model canvas section of this thesis (Business model generation 2015).

2.6 The Lean Startup model

Plantui utilizes the lean start-up model in its business. It is used as a corporate culture and way of working model (Plantui 2015). Eric Ries first introduced the model in 2008. The model has gained publicity upon the launch of Ries' book, 'The Lean Startup' (2011). The model was initially conducted to be used by technology companies in Silicon Valley but has been since adopted by various business entities working in different fields of business. Any individual, team or company with a goal of developing and introducing new products to the target market can use the model (The Lean Startup 2011).

The Lean start-up model consists of three main tasks: build, measure and learn. The supporting tasks in the model are ideas, product and data. The model is used by a company to conduct ideas about a product and eventually launch the product. After the idea phase begins the building phase, at the end of which is the product itself. After releasing the product to the market, the company measures different data about the product, for example sales figures, point of sales and profit margins. The data is then being used by the company to learn about their product; to further develop it to become more efficient and finalized (The Lean Startup 2011).

With the lean start-up model companies can experiment with their product and learn through working. The model is iterative and can be used repeatedly until the product is complete. By using the model, companies can significantly shorten the cycles of product development, as the model only keeps the essential factors in focus. The main point of the lean start-up model is that if companies conduct their business iteratively they can avoid failures when launching the product to the market (The Lean Startup 2011).

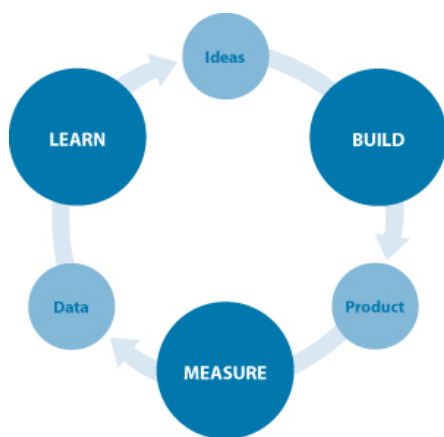


Figure 4 The Lean Startup model
(The Lean Startup 2011)

2.7 Market situation and future trends

The advancements in technology and communication have changed the marketing methods and especially the marketing channels used to reach customers. The consumers have significantly more power over organizations, compared to the situation before technological advancements. This is due to several factors: increased product selection, which can be researched and compared in the Internet, changing customer behavioural patterns and a shifting the customer demand (Ferrell, Hartline 2011). These changes in the market have also affected distributing, it has become more imperative for it to adapt and change. Logistics and supply chain management have replaced traditional physical distribution (Fernie, Sparks 2009).

2.7.1 Increased product selection and easy comparison

The selection of products and product substitutes is very wide, and the selection of product can be overwhelming to the customer. The marketers have to make sure that their product is unique and high quality, in order for it to stand out from the competition. Customers can easily and quickly make price and product comparisons in the Internet, which they often perform before making a purchase decision. Customers can also read product reviews in many retail

and other sales channels, such as web shops, especially if they have not purchased from the place before (Ferrell, Hartline 2011).

2.7.2 Changing customer behavioural patterns

Customers have shifted from traditional channels to more modern channels, for example newspapers, magazines and television have often been replaced with electronic devices such as smartphones, tablets. Many customers also follow different brands and organizations in social medias. Consumers can quickly compare prices and research information in the Internet, instead of going into physical storefronts (Ferrell, Hartline 2011). Other media channels that are growing in usage are: e-mail, word of mouth, podcasts, blogs, RSS news feeds and mobile media (Media usage survey 2008).

2.7.3 Change in customer demand

The most significant change for customers' demand is the digital distribution; traditional methods and channels to reach customers are slowly shrinking. One advantage of the digital distribution is reaching and targeting small audiences with precise marketing messages. In a multitude of cases, customers prefer the least expensive and most convenient products and services (Ferrell, Hartline 2011). Achieving high margins without customers' brand loyalty is difficult, except in monopolistic competition (Kotler et al. 2012).

2.8 Distribution of products and services

In order to understand what makes a good distribution strategy, the general aspect of distribution is described. Distribution is defined as "the movement of goods and services from the source through a distribution channel, to the final client, consumer or user and the movement of payment in the opposite direction, to the original producer or supplier" (Business Dictionary 2015). The two most critical distribution chain elements are product availability and the costs of distributing the product. The product has to be available for the customer in the right place at the right time. The supply has to also match the demand. The distribution costs are commonly the single largest cost in the whole sales process, which makes the costs of the actual distributing important (Ferrell, Hartline 2011). Distribution acts as the way of the company making the products reachable to the customers distributing it to relevant places such as a retailer or a web shop's warehouse. Distributor is an intermediary serving to other intermediaries, for example a wholesaler selling goods and services to retailers. Distributor's core role is to provide products on demand to the customer. This way the customer is saved from the stocking process (Dent 2011). The distribution channel components are described in the following chapters.

2.8.1 Distribution channel flows

Single distribution channel has five different flows: physical, title, payment, information and promotion flow. These flows connect the channel members in the distribution channel.

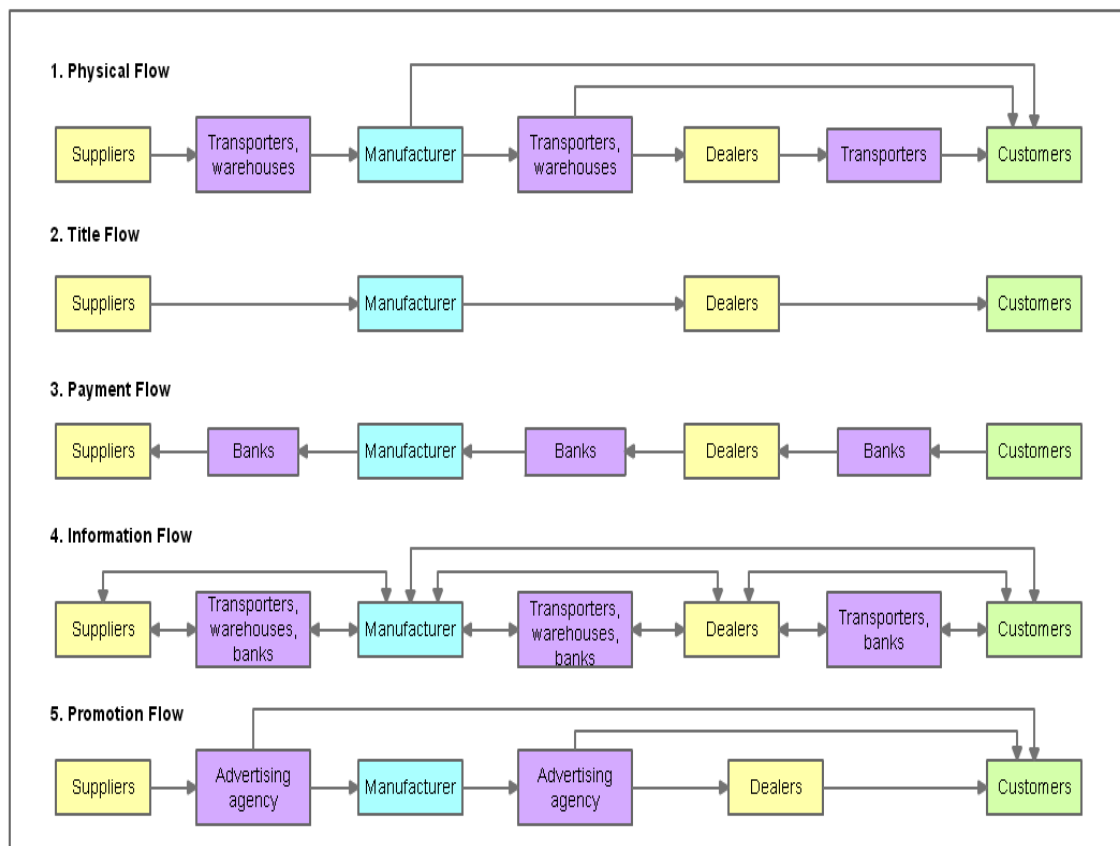


Figure 5 Distribution flow chart

The figure by Proccesson 2012 above states: Physical flow is the physical movement from the manufacturer through the parties included in the distribution chain all the way up to the end customers.

Title flow is the movement of the title from the manufacturers to end consumers. Transportation organizations are not included; they are only involved in physical transportation of the physical product itself (Rosenbloom 2013).

Payment flow is the buying and sales functions between the parties about the ownership of the product. Payment flow also excludes the transportation of the product; they are usually not involved in the negotiations (Rosenbloom 2013).

For information flow, every participant is involved in exchanging information for both directions. Information flow can also take place directly between the consumers and manufactur-

er, and also unlike in the picture the information can pass the transportation firms between every other party. For example, if there is information concerning buying, sales or promotion the transportation organizations are not interested in that information (Rosenbloom 2013).

The last flow is the promotion flow. It concerns the communication by advertising, personal sales, sales promotion and publicity. This flow introduces a new component of advertising agency. The advertising agency is in charge of delivering and sustaining the promotion flow and the advertising components of it. Manufacturer and advertising agencies work closely together to develop a promotional strategy for the product (Rosenbloom 2013).

These five flows help to understand the difference between channel strategy and logistics management. Channel strategy involves the design and planning of all the different flows, instead of logistics managements focus on the physical flow in more detail. The flows also make it easier to distinguish non-members from channel members. Parties involved in negotiatory and title aspects are members of the marketing channel. The concept of channel flows is a good framework for channel management. All of the flows have to be managed and coordinated efficiently to meet the distribution objectives. The flows help to express the dynamic nature of marketing channels, where swift and flexible decisions have to be made (Rosenbloom 2013).

2.8.2 Distribution channel members

Organizations often distribute their products through different intermediaries, because of their contacts, experience, specialisation and operative scale. The sacrifice of complete control of distribution is made up by the intermediaries experience to achieve better results than the organization could achieve on its own. The intermediaries make this possible by making products and services available to consumers, overcoming the main time, place and possession gaps between the buying decision and the actual ownership of products. The key functions of the distribution channel members are either helping to complete transactions or helping with the completed transactions (Armstrong, Kotler 2012).

The functions related to helping in completing transactions typically include: information, promotion, contact, matching and negotiation. Information is the marketing research, data and intelligence retrieval about actors and forces that are essential for planning and helping to trade the information in the marketing environment. Contacting means searching and then negotiating with the prospective buyers. Promotion means helping to develop good communications about the value of the product for customers. Matching can for example include manufacturing, grading, assembly and packaging. Negotiating is the settlement on price and other aspects of the offer, so ownership can be transferred (Armstrong & Kotler 2012).

The key functions related to helping with the completed transactions: physical distribution, financing and risk taking. The physical distribution is the transportation and storage of the sold products. Financing is everything related to the channel usage costs, how are the funds obtained and how are they used. Risk taking is sharing or carrying out all the risks of channel work. (Armstrong & Kotler 2012).

2.8.3 Distribution channel levels

The distribution channel levels are composed of marketing intermediaries. The channel levels bring the product closer to the customers. There are several ways to design distribution channels and how many levels the channels include. The basic principle is that there are direct marketing channels, where the products are sold directly to the customers and indirect channels, where the products are sold through one or more intermediaries. The number of channel levels affects the level of control the organization behind the product has, complexity of the channel. The channel participants are connected together by different flows: physical product flow, ownership flow, payment flow, information flow and the promotion flow (Armstrong, Kotler 2005).

2.8.4 Distribution channel behaviour and organization

The structural behaviour and organization of the work involved in distributing are discussed in this chapter. Besides the various flows connecting the distribution channel members, the channels are also complicated behavioural systems. The partnerships in the distribution channel are created to reach a common goal. In order for the channel to operate efficiently, the organization of the workload needs to be strategically allocated. With healthy competition in the channel, the channel stays innovative and active. However, coordinating the different channel roles and individual operation to match the common goals, roles and the rewards is difficult, many channels often face channel conflicts. The channel conflicts are usually results of the channel members pursuing their own interests. There are horizontal and vertical conflicts (Armstrong, Kotler 2012).

Horizontal conflicts arise in the same level of the channel. For example, franchisees may complain about other franchisers under the same brand that they are not following the company guidelines (pricing, customer service) (Armstrong, Kotler 2012).

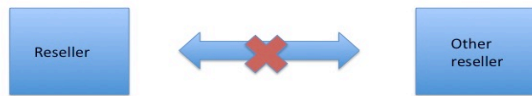


Figure 6 Horizontal conflict

Vertical conflicts arise in the different channel levels and it is more common compared to horizontal conflicts. Vertical conflicts can occur between dealers and other partners and the seller. For example, there are many cases where companies have set up own online store to reach more customers have turned out to be unsuccessful and the sales have dropped (Armstrong, Kotler 2005).

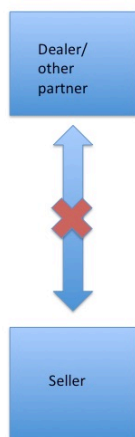


Figure 7 Vertical conflict

2.8.5 Using multichannel distribution systems

Nowadays it is common to use multiple distribution channels simultaneously, unlike in the past where single channel system was the norm. The advantages of the usage of multichannel distribution include increase for sales and market coverage and meeting specific customer needs and preferences. However, when the channel levels increase the channel becomes more complex and tougher to control. Also the aforementioned conflicts are a threat for the channel design (Armstrong, Kotler 2005).

2.9 Choosing a Distribution channel

Distribution channel is a group of interdependent business entities working together to make the product or service available to the end customer. Distribution channels can be designed in different ways to bring the product or service to the customer (Armstrong, Kotler 2012). Decisions concerning the distribution channels is one of the most critical the management faces, because the margins channel members take are usually 30-50% of the selling price (Kotler et al. 2009). Choosing a distribution channel is a crucial part of securing the firms' efficiency. Adding a distributor also reduces channel transactions making buying more simple to the end customer. The distribution channel should be chosen according to various factors, which will be further discussed in the next chapters.

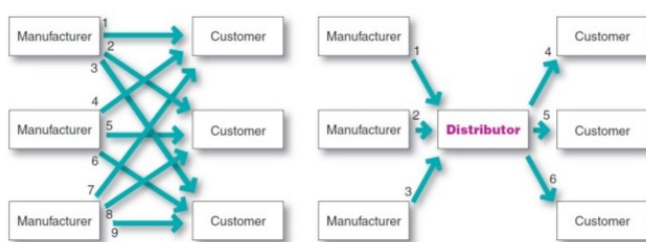


Figure 8 Adding a distributor reduces channel transactions (Armstrong, Kotler 2012)

2.9.1 Analysing consumer needs

When designing a distribution channel, the company should determine what do the customers desire from the channel and whether the channel is suitable for a certain product or service. What are the channels customers prefer to use to purchase the product, what is the channels location and delivery time and what additional services might the consumers demand. The channel operation must balance between customer needs, cost of maintaining the channel and customer price sensitivity (Armstrong, Kotler 2005).

Organizations analyse consumers' needs frequently by conducting a thorough market research. The key to efficient marketing channel design is to find out customer preferences, what are they looking for in a product and what are the preferred purchasing channels for those products. After the market research is concluded, for example using surveys and interviews, the data can be analysed. The data can be used to create value for the customers, which is the main trend for servicing customers well. This approach is called customer-orientated marketing (Kotler et al. 2012). The theoretical part of 4C's concentrates on this approach.

2.9.2 Deciding channel objectives and channel member responsibilities

Companies participating on the channel have to determine the channels' objectives and goals depending on the product characteristics. The customer service level should define channel objectives: what is the most efficient way of serving the customers' needs? Also the channel member responsibilities have to be identified and decided, in order to avoid conflicts between the company and the channel (Rosenbloom 2013).

2.9.3 Deciding the number of intermediaries

When designing the distribution channel the company has to decide the number of channels they are going to use for distribution. When a producer adds an intermediary to its distribution channel, the channel's operation often improves rather than slows down, due to the specialization, negotiation power and contact network the intermediary has. However, the producer gives up control every time a new intermediary is added, this is amplified for start-up companies with low levels of negotiation power over the large intermediaries. Multichannel designs can also become complex and difficult to manage (Rosenbloom 2013).

2.9.4 Identifying intermediary alternatives

Intermediaries are independent companies assisting producers with negotiation functions and other distribution responsibilities. Intermediaries consist of wholesalers and retailers. Wholesalers can be divided to three basic categories: merchant wholesalers, agents, brokers and commission merchants and manufacturers' sales branches and offices (Census of Wholesale Trade 2013). Retailers are more complex and harder to categorize. The size of retailers can alter from very small to large conglomerates with billions in annual sales.

Merchant wholesalers' primary functions are purchasing, taking title to and physically handling the products in large quantities and then reselling the products to other wholesalers and other parties in smaller quantities. Agents', brokers' and commission merchants' functions are more related to the negotiation aspects of buying and selling, while acting on client's interest. Brokers, sales agents, importing agents and export agents belong in this group. Manufacturer's sales branches belong to the manufacturers and are operated in different locations than the manufacturing plants. Manufacturers use these branches for distributing their own products to the wholesale market, either only as a sales office or with warehousing capabilities (Rosenbloom 2013).

Retailers have frequently large sales volumes and reachability towards consumers. The complexity of retailers has resulted into different classification schemes, in order to help organize

them. The long-time trend is the decreasing number of retailers, but the sales numbers are increasing (Rosenbloom 2013).

2.9.5 Supply chain management

Customers expect instant product availability from organizations; there are many substitutes and alternatives that customer may purchase from, if a certain company is out of stock. Supply chains can become very expensive if not designed efficiently throughout the whole chain. Smart supply chain management ensures fresh, superior products for customers to meet their demand. The products have to be cheap to get into stores, have long shelf life and be constantly available during even high seasons. If these requirements are met, customers are provided with good service and they are more inclined to purchase more (Rosenbloom 2013).

Retailers, for example have extended their control over supply channel and the efficiency and effectiveness the channel has increased. Collaborating with logistics and other operative aspects ensures standardised operation procedures (Ferne, Sparks 2009).

Channel strategy and logistics management are two separate entities, they both comprise distribution variable of the marketing mix. Channel strategy is the broader and simpler part of supply chain management compared to logistics management. Channel strategy is concerned with the whole process of setting up and operating the organization of the distribution objectives (Rosenbloom 2013).

2.10 Relevant distribution channels for this thesis

In this chapter, the following distribution channels are explained: small and chain retailers, agents, distributors and own web shop. The channels are analysed in the empirical part of the thesis using SWOT-analysis and theories.

2.10.1 Small retailers

Retailing is a business where a company sells its products, be it product or service, to a consumer through a storefront. The storefront can be physical or an Internet based store. Physical storefronts have to be smartly laid out and merchandised in order to generate effective sales. Physical storefronts are designed to make customer purchase more than they intended, and upsell them high-margin products (Dent 2011). A retailer acts as its' own entity buying and selling products. A financial risk is taken every time a new product is bought from another business to sell to consumers.

If a product has a retailer it is not imperative for the producing company to open a selling office to that particular country or geographical area as the retailer handle the sales (Agentti- ja jälleenmyyntisopimus 2013). Small retailers have generally higher operating costs per sales than larger ones, mainly due to lower sales volume (Lusch 2011). Small retailers are easier to approach than larger retailers and the risks are lower. Analysing retailers is not a straightforward process; they can specialize in core and price positioning. The volume and positioning strategy is also very different for the small retailers as the volume of the sales is much higher for the large retail chains. Small retailers often compete on service offering and special needs that the customers might require, instead of competing with price (Dent 2011).

2.10.2 Chain retailers

Chains are business entities that have multiple similar establishments in which they sell the company's products or services. Chains can operate in various fields of business such as retailing, banking and hotels. The same business owner owns a multitude of stores, for example Kesko owns all K-stores in Finland. Chain stores are distinctive in three ways: the stores are of same architecture, they carry essentially the same line of products and the each store's layout and overall design is essentially the same. Due to their large size, chain stores can buy large quantities of goods comparing to individual retailers and therefore gain bulk discount from the seller. This leads to cheaper consumer price set for the product (Armstrong, Kotler 2012). Large retail chains are often outmatched by the service level and offering that small retailers can provide for customers.

2.10.3 Agents

An agent is a company's representative. A common way to conduct business in a foreign country or geographical area is to use selling agents. A selling agent's main function is to advance the selling of a certain product produced by the employer. The agent acquires buying and selling agreements for the employer and can also sign binding selling or buying agreements. When employing a selling agent the company is not required to open a selling office to a foreign country or geographical area but the selling office's business functions are managed by the selling agent. Selling agent commonly earns a certain percentage of a made business agreement as a provision. Agent's cut from the products sold varies from 5-10% depending on the contract made between the agent and the company (Agentti- ja jälleenmyyntisopimus 2014). Agents are important when the firm decides to expand its business. They have the best knowledge of a certain market and a customer base.

2.10.4 Distributors

Distributor is a business entity through which a product is forwarded to the reseller or directly to the end customer. Distributors and wholesalers use the same business model. Distributor acts as an intermediary to variably sized business entities (Dent 2011). Distributor's business generally consists of keeping an inventory of different products, selling and transporting products to the reseller (Armstrong, Kotler 2013).

2.10.5 Own web shop

Electronic commerce is defined as a business model that enables an individual to conduct business over a network, commonly the Internet. A web shop is a selling platform that acts solely in the Internet. Web shop can act as a retail space for multiple products or it can sell only one product. The benefit of using a web shop as a storefront is that there is no need for a physical storefront and therefore the costs of the business conducting are substantially lower. The visual information the web shop offers is handled by the human brain 60 000 times faster than readable information. Therefore it is vital for web shop to offer relevant visual information to the buyer. The human brain also decides subconsciously whether or not the person likes the web shop's layout, all this happens in three seconds. The current situation is that 35% of all web shop buying situations are not finished due to different errors in the web shop. These can include for example complicated paying process or poorly designed layout of the web shop (Digitalist Pop-up seminar, Mika Aittamäki of Celectus 2015).

When the firm operates solely on a web shop base, the business model is generally more agile to respond to market situation changes and the business will have a wider customer reach comparing to a physical storefront. Web shop can reach customers around the world while a physical store is usually serving the customers living in that particular area (Chaffrey 2002). Although the business conducted in web shops is drastically increasing, the need for physical storefronts still exists. Both the web shop and physical storefront benefit from each other. The customer can first go into the physical storefront to take a closer look of the product, and if the buying decision is not made there, the product can be easily ordered from the company's web shop. The aforementioned physical storefront and web shop put together is called an omnichannel approach. Omnichannel approach aims to seamlessly connect the benefits of physical storefront and web shop (Chaffrey 2002).

2.11 Summary of the theoretical discussion

In order to establish what makes an effective distribution strategy the following critical elements were learned from the theory.

The consumer's point of view is very important for organizations. The organizations need to take consumers' needs into account and offer them value. The consumers and their needs affect most to the channel design. Good channel design will take the following things into account: consumer needs, selection of channel members and partnerships, channel objectives and how to manage the supply chain. By researching these aspects, an efficient distribution channel design can be made from the analysis.

Using multichannel approach to distribution is also important in modern business operation; it helps to even out the risks in the distribution by not being too reliant on one channel. Combining different channels helps to get wide reach towards consumers, and the channel design is vital in order to distribute efficiently.

Other important lessons from the theory were the general aspects of distribution, what aspects make efficient distribution and how different theories can help analyse and compare channels.

2.12 Theoretical framework

Theoretical framework is a logically structured representation of how the research is connected to what is already known and how it contributes to the topic and its goals (Maxwell 2005). The theoretical framework in this thesis consists of six main parts: distribution strategies, marketing mix 4P's, 4C's and SWOT analysis. Ansoff matrix will be used to tell when Plantui should change from one distribution method to another. The theoretical framework helped to establish an efficient distribution strategy for Plantui.

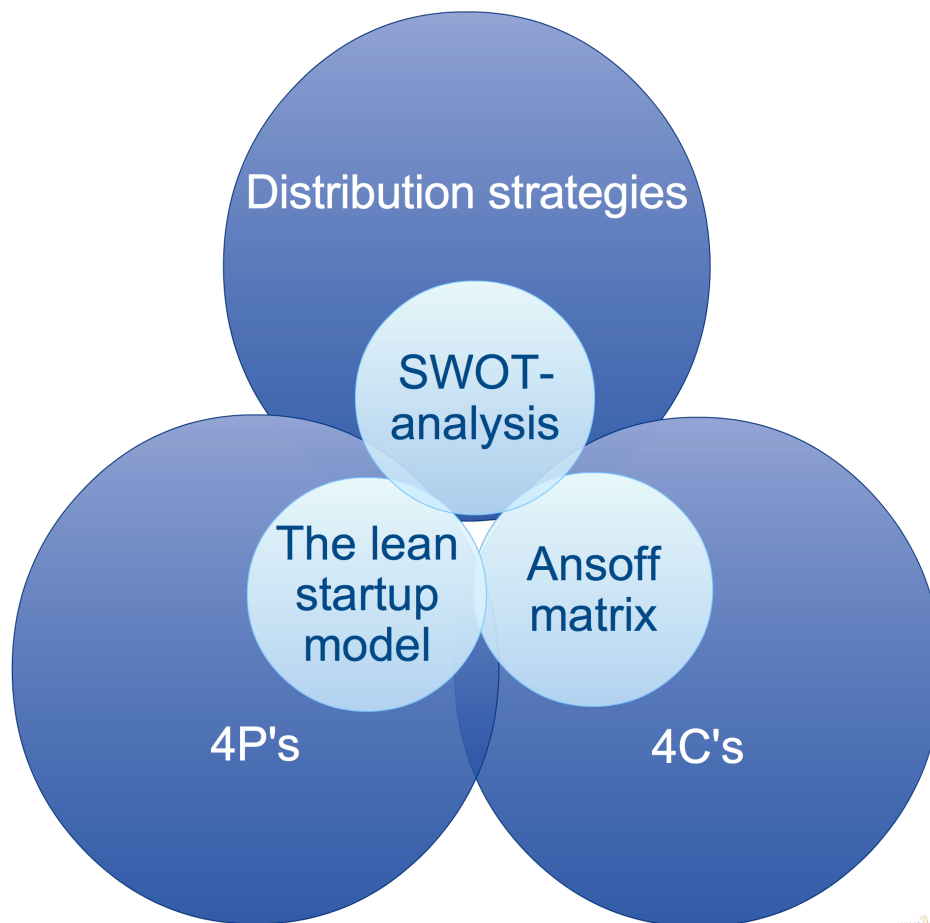


Figure 9 Theoretical framework for the thesis

3 Research approach

Research is defined as a study performed using different methods. Research follows a framework that systematically covers each necessary step to perform a research. The primary reason to perform a research is to answer a specified research question or to prove a set hypothesis (Explorable 2015).

There are three research approaches; quantitative-, qualitative-, pragmatic and research approach. The different qualities and requirements are explained below.

3.1.1 Qualitative research approach

Qualitative research approach is used when the data of a certain study is not easily mathematically analysed. This is due to the fact that the sample size of a qualitative research is usually quite small. Qualitative research method is used in this thesis because the data is not mathematically analysed (Alzheimer Europe 2009).

3.1.2 Quantitative research approach

Qualitative research approach is used when the data of a certain study can be converted into numbers and mathematically processed. The sample size of quantitative research are larger compared to a qualitative research. In a quantitative research the conclusions are drawn from the processed numerical data (Alzheimer Europe 2009).

3.1.3 Pragmatic research approach

Pragmatic research approach involves using a research approach that suits the needs of a certain research the best way. Using a pragmatic approach can also mean using mixed research methods. In a pragmatic theory the researchers recognise the limitations of different research methods, but also understand that different research approaches can complement each other. In a pragmatic approach the data is analysed in an appropriate manner, taking into account which method or methods have been used (Alzheimer Europe 2009).

3.2 Research methodology for this thesis

The research method was qualitative research, by using illustrative case study and the research data was conducted by using book, electronic, interview and seminar sources.

3.2.1 Research approach: Qualitative research

Qualitative research method is divided into six main parts: conducting general research questions, selecting relevant information sources, collecting data, interpreting data into the subject of the study, theoretical work and writing up findings and conclusions about the subject (Bell, Bryman 2009). Qualitative research method is feasible in cases where the data gathered is not easily mathematically processable. Qualitative research is used to gather an understanding of the primary reasons and motivations behind a case. Qualitative research uses small and focused samples of the sample population (Wyse 2011).

3.2.2 Approach for qualitative research: Case study

A case study is conducted to highlight a decision or decisions: why were they executed, how they were executed, and what were the results. A case study is an observational analysis used to understand single or multiple real-life phenomenon thoroughly. It is used to acquire an answer to 'how' and 'why'-questions (Yin 2009). Case study is a thorough insight into context of the problem and it is used to narrow down a broad field of research into one more easily researchable topic (Explorable.com 2014).

3.2.3 Illustrative case study

An illustrative case study is used when there are a limited number of instances to study. It is a tool that allows the reviewer to start from a general perspective and then condense the study to the specific element of the study. Due to illustrative case study's ability of being a descriptive tool it can go deeper into the subject. This increases the credibility of the subject of the study. Illustrative case study aims at collecting facts about the subject with opinions and different points of view. Subsequently suggestions are made about the study with reactions to the subject. Among with other forms of case studies, the illustrative case study also focuses on answering "how" and "why" questions (EU Illustrative Case Study 2005).

3.3 Validity of the research

Validity means the capability of a certain instrument to measure what it was made to measure. Reliability of the research can be proven if the research findings stay consistent when used repeatedly. Four indicators can assess qualitative study's validity:

Credibility means the results being believable and credible from the viewpoint of one of the participants in that particular research. The validity of the study can be proven by the respondent's agreement on the researches' results (Yin 2009).

Transferability means the researches results' transferability to another context or research entity. Transferability can be difficult to achieve because of the adopted approach to a certain research. Some extent of transferability can be achieved if the process is thoroughly described for others to adapt (Yin 2009).

Dependability means obtaining relatively same results if the topic would be researched twice.

Confirmability means the extent to which others could confirm a research (Yin 2009).

The authors of this thesis state that the illustrative case study can offer Plantui a framework to evaluate distribution channels and choose an efficient distribution strategy.

3.4 How did the study meet these demands?

The authors think that the reliability and validity demands of the study were accomplished. Even though the study is not scientifically valid, the goal of identifying the most efficient distribution strategy for Plantui was achieved and the research offers value for Plantui. The recommendations clarify how and why the theories confirm the made claims, and what should

Plantui focus on when choosing a distribution strategy. The different tools used in the analysis part revealed mostly similar results, which proved the dependability. If the research methods and analyses were used in a different case company, the results would be mostly comparable (transferability & confirmability).

4 Empirical study

The fourth part of the thesis will focus on discussing the main practical aspects of Plantui's current situation, entrepreneurship and distribution.

4.1 The current situation of Plantui

Plantui operates in a repetitive business model where the customer buys one Smart Garden and numerous plant capsules through a certain time frame. Plantui's team is a group of experts from different areas of science and business. The team includes experts varying from professor of biology to an expert sales person. Plantui won the Red Dot design award in spring 2015. The award itself is a highly sought after and it is granted to exceptionally well-designed consumer goods. The design award is expected to raise the sales of both the Smart Garden and the plant capsules. New markets are being examined whether or not they are suitable selling environments for Plantui. One of these areas is Japan where population number and the living density is one of the highest in the world. Other confirmed countries that Plantui will start business in are Holland and United Kingdom. The launch of Plantui in the aforementioned countries will happen during 2015. Plantui would make of an ideal product for that particular country's need as it taps into an existing market opportunity that is created by global urbanization. Plantui's Smart Garden and plant capsules make it possible for anyone to grow their own greens regardless of where they live. Plantui can sustain the plants independently and does not require any external help.

Other factor supporting Plantui's growth is the current trend of cooking. Plantui grants continuous access to fresh plants to be used in cooking or otherwise. Plantui also supports the trend of healthy lifestyle and "grow it here, eat it here" food trend, meaning food produced close to the final using place. Cleanliness of the food and the origin of the food are also current trends. Plantui's clean as it uses no harming chemicals in the process of growing and the customer can grow the plants in their own home.

The funding for Plantui has come from the firm's owners and independent investors that do not work in the company. Tekes, the Finnish funding agency for technology and innovation has also granted loans for Plantui to be used to research and development of the Smart Garden and the plant capsules. In the spring 2015 Plantui has acquired 0,9 million euros of share capital to be used to international growth.

New resellers are being negotiated in countries in which Plantui already sells its products. In addition to that the company is also expanding its business to new countries (Plantui 2015).

4.1.1 Smart Garden

Plantui Smart Garden is the device in which the plants are grown. The device uses powerful lights imitating the sun's light spectre. The Smart Garden also houses a pump that pumps water into the roots of the plants in certain cycles depending on the growth stage of the plant. The device can grow six individual plants at a time. The only aspect in which the user has to interact with the device is when a growing block is added during growth. In other times the device operates automatically adjusting the lighting and the pumping intervals. The system is completely soil free and uses only water and a specialized nutrient to grow the plants. The device operates in a low voltage system and consumes approximately 60 kWh per year.



Figure 10 Plantui growth process
(Plantui 2014)

4.1.2 Seed capsules

At the present moment Plantui has 28 different plant capsules in their selection. The capsule selection includes edible flowers, salad greens and herbs. The capsules themselves are made of stone wool, and each capsule houses five to 10 seeds. The growth rate is close to 100%. Depending on the plant, it takes approximately one to two months for the plant to grow from a seed to an edible form. Each selling package houses three plant capsules and one nutrient capsule that is a sufficient amount for three litres of water.

4.1.3 Current intermediary cost structure

Smart Garden		
Plantui 2	€	Margin
RRSP	€265,00	
VAT	€222,69	19%
Retailer/chain margin	€144,75*	35%
Distribution	€108,56*	25%
Logistics/handling	€105,30	3%
Marketing	€100,04	5%
Plantui netto	€97,04	3%
Factory price	X€	X%
Total € cost		

Figure 11 Cost structure
(Plantui 2014)

The above illustration pictures the current situation in intermediary costs of the Smart Garden. The Recommended Retail Sales Price (RRSP) is 265,00€. Excluding the VAT 19% (the current VAT in Germany) the net price is 222,69€. The calculation shows the margins every intermediary takes. Retailers and distributors have a slight fluctuation in their margin percentage, depending on the business deal made between the two entities. With retailers the fluctuations vary between 20% and 45%. With distributors the fluctuations vary between 25% and 50%.

4.2 Plantui distribution alternatives

Plantui Channel expansion

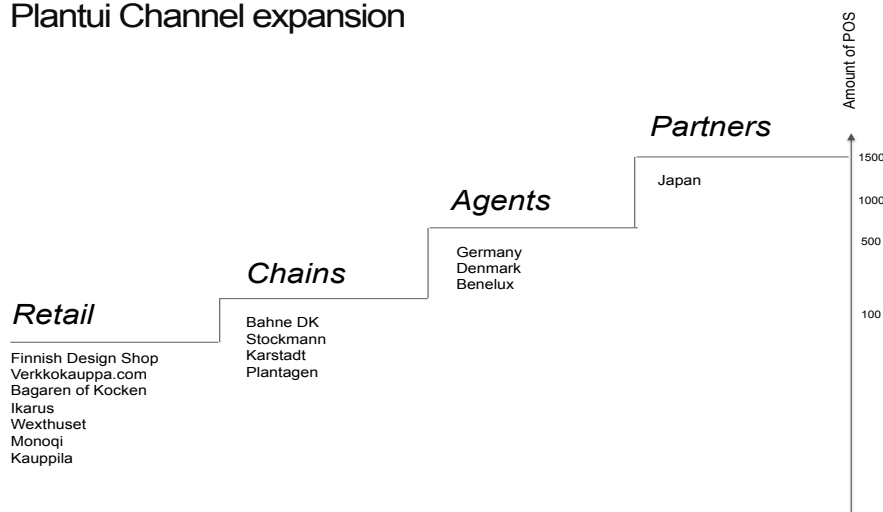


Figure 12 Plantui distribution alternatives

There are five different distribution alternatives that Plantui is already using or going to use. Above are pictured four of the possible distribution alternatives. The distribution alternatives are small retailers, chain retailers, agents, distributors and own web shop. To simplify, the intermediaries are divided to retailers and wholesalers.

The graph above discloses the Plantui distribution steps. When company starts the sales, the first retailers are sought by the company itself. The bigger the retailers are or the more point of stores they have in their chains, the more resources it requires from the company like customer service, training of staff. Plantui has calculated that when POS number exceeds 100 the time is right to make a deal with a sales agent per target county. Again when POS number grows there comes a time when it is good to find a distributor per county. A difference between a distributor and an sales agent is usually clear: distributor takes care of the business including sales staff training, logistics, warehousing and even marketing in the agreed area or country. This is why the distributor requires a bigger margin, too.

4.2.1 Plantui's customer profiles

Plantui has established three distinct customer profiles prior to the launch of their products. The profiles were formed in 2013 in Copenhagen based on the users of the Smart Garden prototype. The profiles help Plantui to target their market to a specific customer group and also help to keep the focus on those customer groups. The three customer profiles are fictional characters that summarize each of the groups' distinctive features.

First of the three profiles is Pernilla. Pernilla is a woman whose hobby is gardening. She grows her own greens in her garden during the summer but she cannot grow anything there during the wintertime. With Plantui she can grow her greens around the year and also produce seedlings to speed up her growing process during the summer.

A second customer profile is Jens. Jens' hobby is cooking, he takes it very seriously and he wants to be a master with his recipes. He uses plenty of herbs in his cooking and he has had a problem of finding all the needed herbs to his cooking from the supermarkets. With Plantui he can grow his own herbs to be used in his cooking. Plantui's selection of herbs is extensive and features many herbs that are not commonly available in supermarkets.

Third customer profile is Saga. Saga is a furnishing aficionado who is very strict about the furniture and decoration items in her home. She likes plants but does not like to work with them, as they have to be covered in soil and have to be watered frequently to be kept alive. With Plantui she can enjoy growing her own plants, and as Plantui is soil-free, she does not have to work with soil, and the growing process is clean.

The customer profiles Plantui has developed through research about the prototype's users give solutions to three distinctive problems. The first is to be able to grow plants year-round. The second one is to have access to exclusive herbs in one's home. The third is having design-wise good product that is also a functional piece of equipment.

4.3 Distribution channel analysis

To establish efficient distribution strategy for Plantui, the relevant channels were analysed using 4Ps and 4Cs theories, Ansoff matrix and a business model canvas was made.

4.3.1 4Ps and 4Cs analysis for using small retailers

4Ps analysis: The product and price for the Plantui's merchandise is the same for consumers, despite being sold through different channels. The market structure in retailing is typically monopolistic competition, which means that demand increases when the price is lowered. Seasonal campaigns can boost the sales momentarily. Plantui smaller retailers include, for example finnishdesignshop and verkkokauppa.com in Finland. These retailers are relatively small and do not have as much negotiating power as the larger chain retailers have. The placement of the product is convenient for the consumers, retailers are quite known and consumers have trust in them. The retailer's strong points are physical experience of the product; customers can feel and touch them. Also retailers are convenient shopping places, you can purchase many other products during the same visit. The visibility for the product is good and the opportunity for large sales volumes is great. The promotion can be done as a part of a

marketing campaign, for example as an aforementioned seasonal campaign. Other promotion methods are current trends that could be utilized in marketing.

4Cs analysis: Retailers are a good choice from a consumers' point of view, they are large and customers have trust in them. The price is not often the cheapest in large retailers but the convenience of buying from retailers makes it easy for customers. Retailers often have good overall influence over customers due to massive scale of marketing campaigns and visibility towards customers. Communicating the product towards the customers can be difficult because the product range is so large. If the consumers see the products and the message reaches the consumers, the communication can be efficient.

4.3.2 Swot analysis for using small retailers

Small retailers' largest strength is trust and reachability towards consumers. Even small retailers are often widely recognised and consumers trust them. However for Plantui, the profit margins are smaller when using retailers than for example agents; because of all the fees and profit cuts the retailers take. Largest weakness of retailing is the cut that the retailers take from reselling the producer's product. The profit cut is generally larger the bigger the chain is as large chains have a lot of negotiating power. Retailers also demand different fees for any operative aspect, product display, marketing fees, delayed deliveries. Opportunity is the increasing sales opportunity and visibility of the product, brand and company behind it. Threats of retailing is the treatment of suppliers, the retailers can stop selling the product if they don't sell fast enough. The strict sales goals of retailers can also be seen as a threat.

4.3.3 4Ps and 4Cs analysis for using chain retailers

4Ps analysis: The product and price for the Plantui's merchandise is the same for consumers, despite being sold through different channels. Also the other parts of 4Ps are mostly the same as in small retailers, the size and sales volumes are the main differences. The place of the product distributed through chains is also good for the consumers; despite recent troubles Stockmann chain is still a good and trusted entity among Finnish consumers. The other chains Bahne in Denmark and Karstadt in Germany are also large and popular chains. The visibility of the product is good and the opportunity for large sales volumes is great. The promotion can be done as a part of large marketing campaign, for example seasonal campaigns.

4Cs analysis: Chains are also an acceptable choice from a consumers' point of view as they are large and customers have trust in them. The price is not often the cheapest in large retailers but the convenience of buying from retailers makes it easy for customers. Communicating the product towards the customers can be a bit difficult, because the product range is

so large. If the consumers see the products the communication can be efficient and reach the consumers, due to massive scale of marketing campaigns and visibility towards customers.

4.3.4 Swot analysis for using chain retailers

Retailers' largest strength is the volume of the sales and reachability towards consumers. Retailers are often widely recognised and consumers trust them.

Largest weakness of retailing is the large cut that the retailers take from distributing the producer's product. The profit margin for Plantui similar as in retail; chains also acquire a large percentage of the product's margin. Retailers also demand different fees for any operative aspect such as product displays, marketing fees or delayed deliveries.

Opportunity is the increasing sales opportunity and visibility of the product, brand and company behind it. Retailers usually have multiple storefronts, both physical and Internet based. This means that the product is sold in various different places and thus the customer base is wider comparing to a single store. Retailers can further widen their customer base by attaching a web store to their business selling the same products that they have in the physical store. The company whose product is being sold through the retailer can conduct continuous tracking about which of the retailers' storefronts sells the product the best. By conducting research about the sales volumes of each reseller's point of sales, the producer can target the sales to certain stores only, thus saving money.

Threats of retailing is the treatment of suppliers, the retailer can stop selling the product if they don't sell fast enough. Retailers can also create a substitute product that mimics the original, thus threatening the original product.

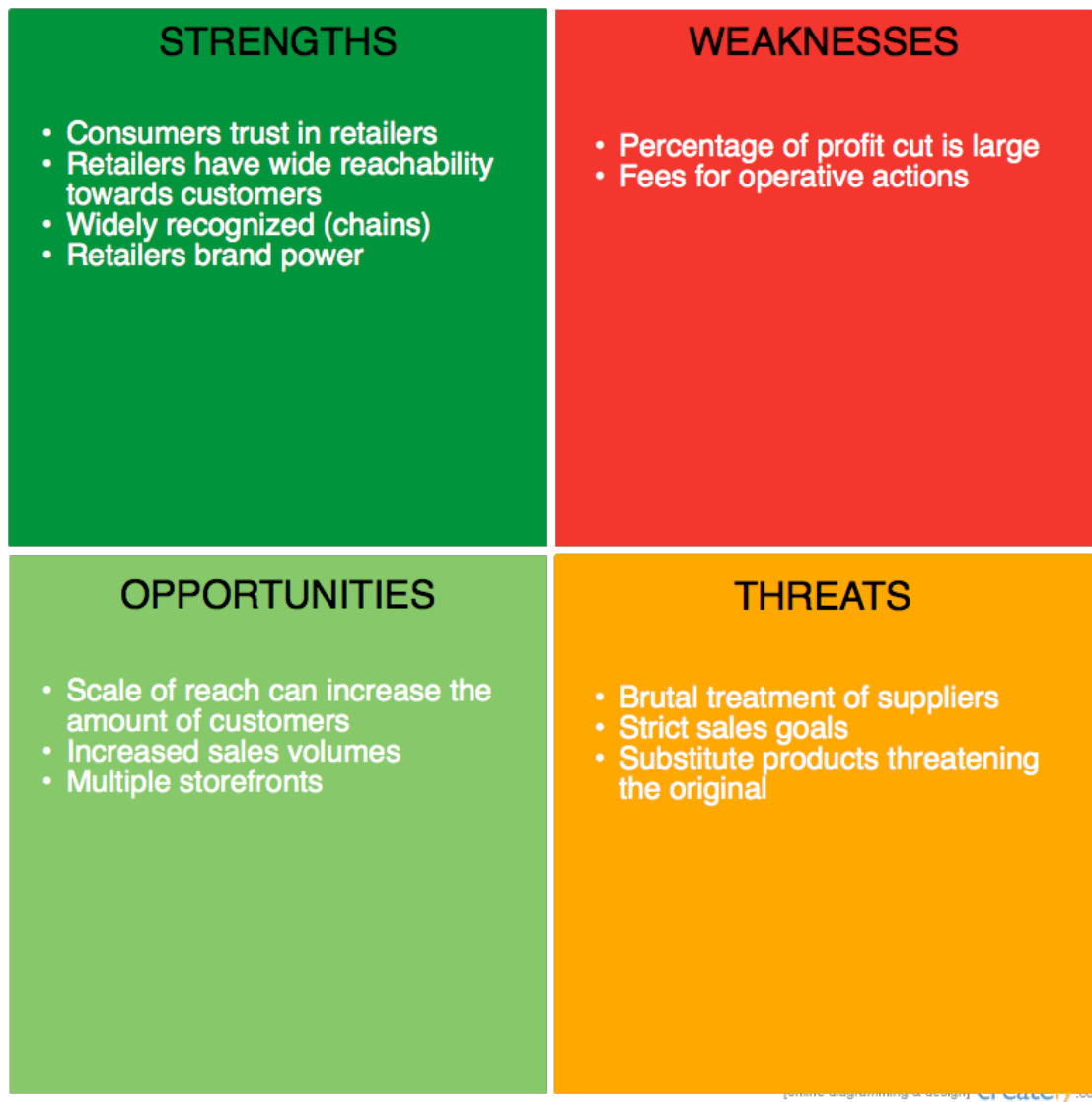


Figure 13 SWOT analysis for using small & chain retailers

4.3.5 4Ps and 4Cs analysis for using agents

4Ps analysis: The product and price for the Plantui's merchandise is the same for consumers, despite being sold through different channels. Agents have usually good networking and sales skills, so they are helpful for the organizations and even customers. In a customer's point of view, they benefit from agents in a non-visible way. Agents do not sell to consumers directly, but getting the organisation's product for sales in as much places as possible is beneficial for the customers. Promotion of agents is done directly to businesses, not to consumers.

For customers, agents' work is not visible; they work in the background to get the product available to as many places as possible. This makes only the convenience and communication

points valid for 4Cs, it helps consumers' easiness and convenience of shopping if the product is widely sold and distributed.

4.3.6 Swot analysis for using agents

For Plantui, agents are beneficial and important in bringing the products visible and for sale in as many places as possible. The strengths of using agents are that they take the least amount of profit cut percentage, usually ranging from five to 10 percent of the sales, depending on the business agreement made with the client. The networking and sales skills that agents have are invaluable to bring the products to retailers and wholesalers. The buyers of a certain company will rather conduct business with an agent who is a native of the country where the business is conducted. This is because they can use mutual language and the buyer of the company trusts a native agent more than a foreign one (Finpro seminar 2015).

Weaknesses of agents are the costs that result from the contracts; agents usually receive a percentage cut of all shipments from the years that the deal is made for. The company has to ensure that the agent has the latest information about the company and their products. If the company fails to deliver relevant information about the current situation of the company, the agent cannot conduct business as agreed (Finpro seminar 2015).

An opportunity of using agents is that they are able to make contracts with different large wholesalers and retailers that would want to sell the product. Adding one large retailer or wholesaler could increase Plantui's sales significantly.

Threat of using agents is a saturated market, where new business opportunities are hard to find or non-existent. The fact that the agent is in control of a certain area in which the product is sold can also be seen as a threat.



Figure 14 SWOT analysis for using agents

4.3.7 4Ps and 4Cs analysis for using distributors

4Ps analysis: The product and price for the Plantui's merchandise is the same for consumers, despite being sold through different channels. Strengths of using distributors are the sales volumes and wide reach that the distributors can accomplish for the product. Distributors can efficiently handle the distribution for many retailers and other customers, which handle the actual sales of the product. Promotion is usually handled as a B-to-B based promotion, where the actual resellers handle the visible promotion that is visible to the consumer. The place of the sales channel is also based on B-to-B point of view, since distributors do not handle the end sales to the customers.

4Cs analysis: Distributors are a good choice from a consumers' point of view as they provide volume sales, which keeps the final prices low. Distributors have large inventories and they

sell to storefronts with low prices. However, like agents, distributors act in the background and they do not sell to consumers directly. The consumers see the benefits of using distributors in indirect ways, the margins and prices are kept low and the inventory levels are feasible if the predictions are made correctly. Communication point is not applicable for distributors, since they do not communicate to customers directly.

4.3.8 Swot analysis for using distributors

Strengths of using distributors are that they usually take a smaller cut from the products' profit than retailers, and the volume is the largest. They also have large inventory and wide networks for distributing. Also due to the extensive network, the distributors have great selling and advertising expertise, which further helps their client company in widening their customer base. Knowledge of a certain market can also be used in favour of the client company to advance sales.

Distributors weakness is their reliance on the supply chains' functionality. If one part of the supply chain fails to fulfil its duty, other parts of the supply chain, including distributors will be compromised and cannot conduct business as agreed. This has a direct effect in the client company and their customers. The product has to sell well in order to make the possible distributor interested in the company. The aforementioned are weaknesses of distributors.

Opportunity for Plantui is a cost-effective route to consumers through large number of trade channels. The cost-effectiveness is a result of carefully choosing the distributor from various alternatives.

Threats for using distributors are incorrect readings of the market and predictions of the changing market situations and how to react to them. Unpredictable market situation can also be seen as a threat, as the distributor has to balance between a stock surplus and deficit. This is why the markets are often volatile and the distributors have to read the market situation actively and adapt quickly to the current situation.



Figure 15 SWOT analysis for using distributors

4.3.9 4Ps and 4Cs analysis for using own web shop

4Ps analysis: The product and price for the Plantui's merchandise is the same for consumers, despite being sold through different channels. The place is very convenient for the consumers, it is easy and simple to find the products and order them online. It is a fast, efficient and easy channel to sell the product. The promotion of the product through this channel could be more unique, because of lack of restrictions that chains and retailers regularly have.

4Cs analysis: For consumers, the web shop is the most convenient place to buy products. It is fast, convenient and reliable to purchase directly from the company that manufactures the product. It is also an adequate place for researching more about the organization and the product. It is also easy to buy complementary products, if the organizations web shop has smart suggestions for them. This makes the convenience and experience of the shopping satis-

ifying for consumers. Communication can be also strictly guided and planned, seasonal news and product information can be quickly updated. Cost can be either lower or higher than through other distribution channels, depending on the pricing strategy. The lack of intermediaries ensures much higher margins for the organization. There might occur a conflict between a company and a retailer if the price of the product is cheaper in company's own web shop compared to retailer's store. This is why big differences in consumer price are not recommended.

4.3.10 Swot analysis for using own web shop

Strength of using an own web shop is the fact that the web shop and physical storefronts complement each other. One can research products and companies quickly on Internet and experience the product physically in stores. The complementary products are also easy to suggest to consumers. It is also harder for consumer to compare the products for substitutes from other companies. Fewer intermediaries result into larger profit margins. Operating solely in the Internet reduces the company's operating costs. The company can reduce the marketing costs of a product by using data targeting towards a certain customer group. The marketing can be done solely on the Web, which also decreases the marketing costs.

Weaknesses of using own web shop are the development and maintenance costs. Also the current partners selling the product may be unsettled about the fact that the companies want to sell and distribute the product on their own. This may lead to conflictions in the partnership. When a customer is buying a product from the Internet, he or she will not have a direct human contact while making the purchase. This may lead to uncertainty about the product and ultimately may affect to the buying decision. The fact that buying is mostly based on feelings rather than common sense means that human senses should be more aroused, so far the only sense aroused by a web shop is vision.

Opportunities of company owned web shop is the increasing profit margins and increased sales and visibility potential. Internationalization is another opportunity that a web shop makes possible, as the Internet is accessible throughout the world. Web shop widens the customer base drastically as anyone can have access to the product through the Web, making a web shop great opportunity for the company.

Threat of using own web shop as the primary sales channel is the possible relationship problems with current partnerships; there are many case studies where the sales have actually decreased due the company starting their own web shop. The web shop page is also exposed to external faults, such as a server center dysfunction.



Figure 16 SWOT analysis for using own web shop

4.4 Research results

By the analysis of the SWOT and Ansoff matrix, it can be stated that the distribution channel qualities were defined and it was also clarified why and when different channels should be used for distribution.

By using SWOT analysis to analyse all the possible distribution methods, the web shop was found to be one of the most suitable alternatives for distributing the products. With the SWOT analysis it can also be stated that the web shop benefits of the support by a multitude of physical storefronts to maximize the coverage of customers. SWOT analysis is mostly a tool for analysis but in this thesis it was also used to link the theory and empirical parts together. SWOT analysis is a theory with which one can compare different alternatives and based on the comparison, a valid distribution strategy for Plantui was established.

By using the Ansoff matrix, the business of Plantui can be evaluated by current situation and value offering in the future. With the matrix it was found out what are the different alternatives for Plantui's product-market growth strategy.

By introducing various distribution theories, the important factors of distribution were clarified. With the introduced distribution theories the topic as a whole is easier to understand, as the objective of the thesis was to understand what makes an efficient distribution strategy.

By combining theory and empirical parts the research problem was answered to and the objective was fulfilled.

5 Recommendations for Plantui

In this chapter, the recommendations made based on the distribution strategy research are discussed in detail.

5.1 Business Model Canvas

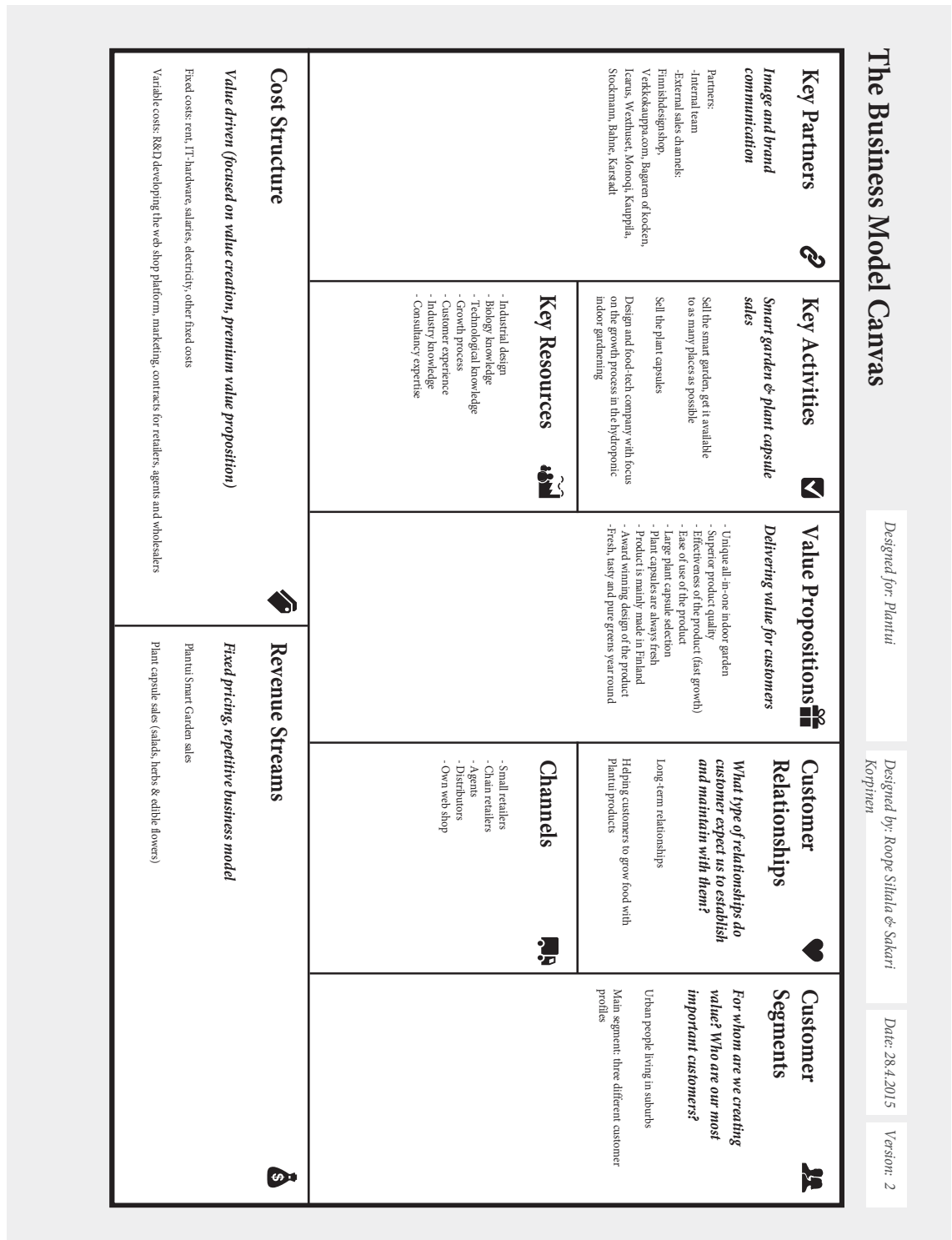


Figure 17 Business Model Canvas for Plantui

The Business model canvas is a business plan proposal for Plantui. The most important sections of it are the revenue streams and value proposition. Those are the sections most relevant for Plantui. Other sections of the Business model canvas are key cost structure, partners, key activities, key resources, customer relationships, channels and customer segments.

The value proposition describes the value that Plantui offers for their customers. The product has superior quality compared to the competitor's offerings; the led lights are measured to be up to 10 times more effective for plant growth comparing to other devices on the market. This superiority has to be maintained by product development to have a competitive advantage. Ease of use of the product is also valuable for customers, so everyone can use the product. The large offering of the plant capsules is important. Plantui also needs to be active in the product development for new plant capsules so customers stay interested in the products. The environment friendly products and their recyclability are also usable selling points. The last value proposition is award-winning design of the product. Plantui recently won the valued Red Dot Design Award for the Smart Garden's design. Plantui is considered a unique all in one indoor garden, giving customers joy of growing fresh, tasty and pure greens at home year around.

Revenue streams come from two sources, sales of Plantui Smart Gardens and plant capsule sales. Being a start-up, Plantui also acquires money from investors and Tekes, the national innovation funding centre. The pricing is fixed, with occasional campaigns in different sales channels. The Smart Gardens sales act as a gateway for the profitable plant capsules. The business model is repetitive; customers buy plant capsules continuously. The plant capsules (salads, herbs & edible flowers) are inexpensive. Being so, the profit margin is good nevertheless.

Cost structure is value driven with premium value proposition. Fixed costs include: rent, IT-hardware, salaries, electricity and other fixed costs. Variable costs include: research and development, development and maintenance of the upcoming own web shop, marketing, contracts for retailers, agents and wholesalers. Those contracts are always variable, depending on the partner and its size. Also the costs of certain channels are significantly different compared to other channels.

Key resources of Plantui are the industrial designer, biological knowledge, technological knowledge from experts and consultants, industrial knowledge and customer experience of the management team and the consultant experience for the growth process. The management team has experience from different fields, making it competent to manage Plantui's growth in the future. Plantui Oy is a design and food-tech company with focus on the growth process in the hydroponic indoor gardening.

Key activities Plantui is doing are the smart garden sales. The goal for device sales is to sell it as much as possible and get it available to as many sales channels as possible. The other key activity is to sell the plant capsules to ensure on-going revenue stream.

Customer relationships are long-term, because the main business is to sell the plant capsules. The business model creates new possibilities for locally sourced food in urban areas where customers can grow their own plants easily. Plantui products help customers to grow food. The main customer segment is the urban people who live in densely populated suburbs and there are three customer profiles made of prospective buyers of Plantui's products. Three customer profiles are described more in detail in the Plantui customer profiles chapter.

The channels for distribution are small retailers, chain retailers, agents, distributors and upcoming own web shop.

5.2 Ansoff matrix for Plantui

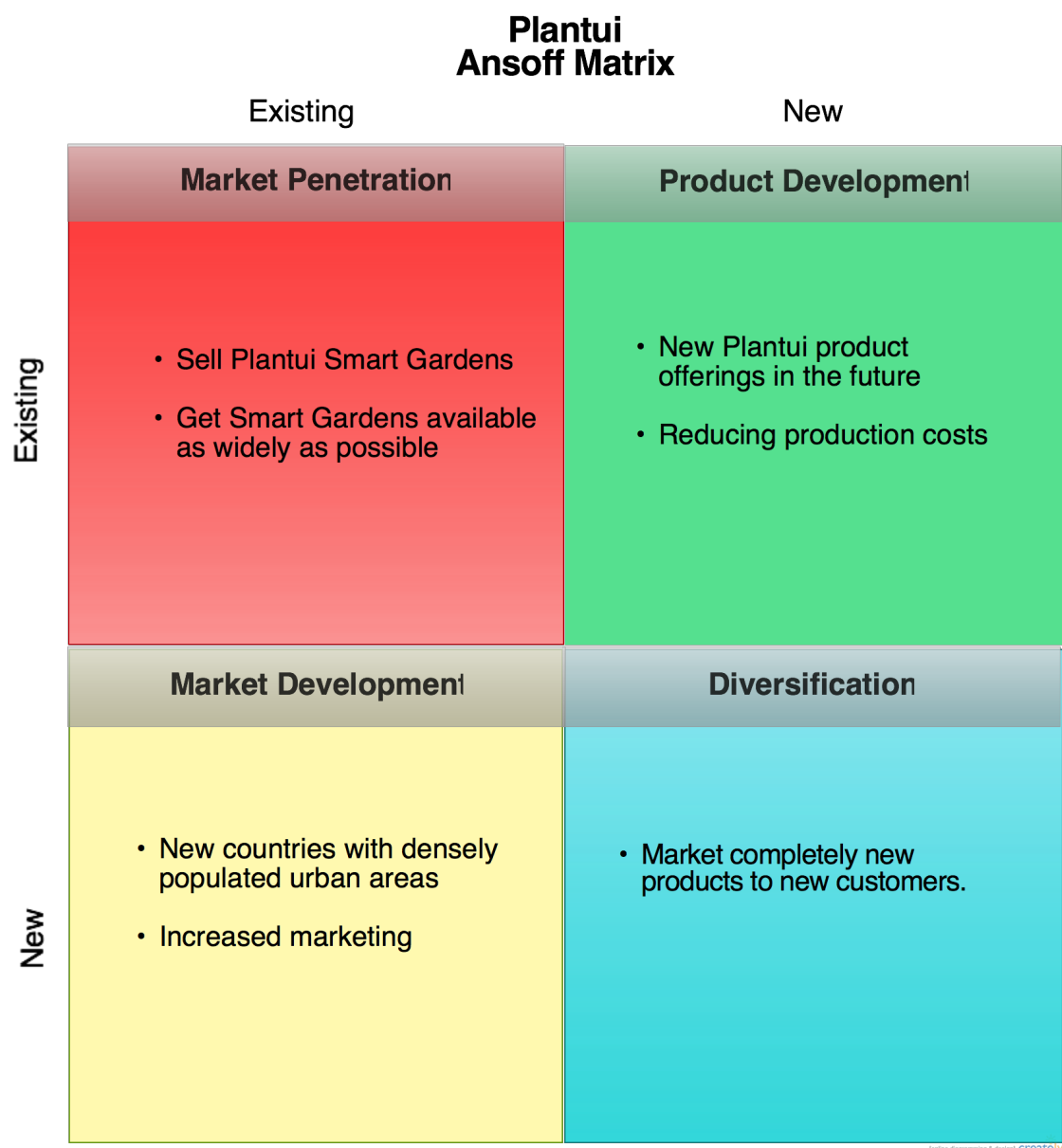


Figure 18 Ansoff matrix for Plantui

The illustration above describes the Ansoff matrix for Plantui. The existing situation of market penetration is to sell as many Plantui smart garden devices as possible and to make it available for sales as widely as possible. This secures Plantui as a platform for growing plants, edible flowers and salads. The more profitable business for Plantui is the actual sales of those consumables, not the device itself.

Market development is where Plantui will expand in the future; the targets are countries with dense population with urban areas. For example, interesting target countries where Plantui might be expanding to Japan, Italy, and France. The aforementioned urbanisation is the biggest trend influencing the smart garden business. According to CBI study 2010, the urbanisation will force the 'grow it yourself' business to grow exponentially, where locally sourced food will be the norm.

Product development has to be done to keep Plantui's product superior, while reducing the production costs to increase profitability. Compared to the competition's offerings, the Plantui product is unique in its quality and effectiveness. The led light is superior to its competitors, ensuring rapid growth for plants. These kind of competitive advantages have to be maintained by product development. After the smart garden devices are sold to a wide audience, the sales of the plant capsules are the main method of making profit.

Diversification can be done combining completely new product to completely new markets. Plantui is developing additional products alongside the Smart garden and plant capsules, so launching them to new markets is crucial to stay innovative and ensure steady growth in the future.

5.3 Distribution strategy for Plantui

The business model canvas and Ansoff matrix make it clear that the value offering and customer focus are important in the distribution strategy. As Plantui is a start-up company with limited resources, it would be most beneficial for the company to establish and mainly sell through own web shop. Utilizing an own web shop saves the distribution costs as the company handles the distribution itself. Other fixed costs are also lower when most of the selling is done through Internet. Also the warehousing would be done by the company itself and no external help would be needed. This would keep the costs down for the company. Overall the operating costs of a web shop are significantly lower than operating solely in physical storefronts, for example in a web shop there are no rent costs that have to be covered monthly.

However, the unknown product and brand needs a lot of marketing so that the consumers would find the product in the Internet and the web shop. In a retail store consumers can see

the product by chance and get interested of it. The cost of getting the traffic to company's own web shop is significant. One solution is opening a web shop on another platform, for example a shop-in-shop at Amazon web shop. The consumer traffic is already there.

Although web shop has its perks, it is also imperative to have at least few physical storefronts where the prospective buyers can go to see and touch the device in person. As mentioned earlier in this thesis, web shop's sense stimulus is very shallow, limited to only visual stimulus. The more the human senses are stimulated, the more the buying decision is fortified. In the early stage of business in which Plantui is now, it is important to gain large customer coverage through utilizing both physical stores and web shops. Also as the brand itself is gaining popularity, the buyers most likely want to see the device physically, because there is no substitute to the Smart Garden in the markets currently.

The web shop and physical storefronts are used to gain a proof of concept about Plantui's products, the Smart Garden and plant capsules. Proof of concept's idea is to realize the potential of a certain method used in business. These two distribution methods are the most efficient for Plantui in its early stages of business. The web shop saves the assets of the company to be used in other applications. Although the web shop is very cost effective way to sell a product, the physical storefronts are important to gain a large customer base and make the consumers familiar with the product.

As Plantui grows in size, and as the brand raises more awareness, it would be reasonable to hire a distributor to manage each country's markets. This saves Plantui's assets, as the company itself does not have to take care of each country's situation. The distributors would work under Plantui with a distribution contract. The distributor would be in charge of each country's sales and other business related actions. Each country, in which Plantui is sold in, should be a native distributor that is familiar with a certain country's market situation and local buying culture and habits. This makes business conducting easier with local business entities.

The research made of the distribution alternatives that Plantui can execute in their business show that; the combination between retail shops and a web store or usage of web-based retailers is the most usable in the current state of business. Also the target customer profiles established by Plantui support this finding. Two of three profiles are rather young and one is an older person. Younger people tend to be more Internet friendly and they also buy goods from the Internet more often. Large part of the world's retailers have some kind of Internet platform to sell their products, and overall buying behaviour of consumers is shifting to favour the Internet. One of the target customers is the older woman. Customers profiled as similar target their shopping towards traditional retail stores. The distribution strategy stated sup-

ports the buying habits of the entire predetermined target customer group. The distribution strategy also answers to the current business situation of Plantui.

6 Conclusions

The research results show that an own web shop should be established in addition of using existing conventional distribution channels. The conventional distribution channels would introduce the product and brand to customers and the web shop would keep the operation costs low, and maintaining higher profit margins as from conventional distribution channels. Also the analysis made of each distribution method is advantageous for Plantui as they can more easily make decisions about the distribution methods. The best distribution approach would be to utilise multichannel distribution system.

The case company Plantui can use the data from this thesis to successfully establish a feasible distribution method for each stage of their business.

7 Theoretical linkage

The theoretical background implemented in the thesis supports the case study of researching and finding the most efficient way for Plantui to distribute its products.

Each of the five possible distribution channels was evaluated through six different theories widely used in different applications in various fields of business. The theories used in the thesis were SWOT, 4P's and 4C's and Ansoff matrix, distribution theories and the learn startup model. With the aforementioned six theories it was possible to evaluate the distribution channels in detail.

The usage of multiple theories also enabled the authors to research the case from various points of view, giving the case study a more usable outcome for the case company to use in their business. With three different points of view to the case study, it is easy for the case company to assess the implementation of a distribution strategy.

The theories chosen to implement the distribution plan are appropriate for researching different distribution strategy options for Plantui to use in their business. Without the theories used, the distribution strategy would have not been as usable as it is now, as the theories give the case study a more in-depth review. The theories used increase the accuracy and credibility of the distribution strategy.

8 Summary

Plantui with its products, the Smart Garden and the plant capsules have great opportunities in globalizing the product and thus growing in size. Currently the most part of the funding comes from different investors ranging from the stakeholders to private funders and Finnish government supported funding agencies. The present challenge for the company is to increase sales in the already acquired selling platforms ranging from physical stores to Internet based stores. The company has to closely monitor the market situation and adapt to changes accordingly. The worldwide market of consumer goods is recovering from a recession and companies in general are rather cautious in the actions. This affects also Plantui. As the rival products are not similar in capabilities, it is invaluable for Plantui to get the patent accepted (patent is pending for Plantui growth process) for the device and its features so that success in the market can be reached.

The current market trends of healthy and near-grown food are supporting Plantui's growth. The products are known in some part of mostly northern Europe. This gives Plantui many different market opportunities to cover the rest of Europe. There are plans to start selling the products outside of Europe, and those are to be implemented during 2015.

When it comes to point of sales, there are numerous options from which Plantui can choose the best one. Currently the Smart Garden and the plant capsules are being sold through resellers and in online stores. By increasing the sales in the current points of sales, the company can widen their market coverage by adding new resellers. Also increasing the sales means that the company can become more independent and having to depend less from the different funders.

As the company grows in size and sales increase, the distribution strategy helps it to enter new market with efficiency. The company has ready-made steps at their disposal which they can implement as they grow. Also the analysis made of each distribution option brings invaluable information for the company to adapt to their business.

Plantui has had some positive publicity through different forms of journalism and the awareness of the product is growing steadily. Also the success in the Red Dot Design Awards is sure to raise awareness of the brand and its offerings globally. Aggressive marketing through different medias can further increase the visibility of the company. Also the positive feedback from the device and plant capsules as word of mouth can affect the buying decisions of those who do not yet own the device. Therefore, it is vital to keep the product quality as high as possible, as it leads to satisfied customers.

The data gathered from multiple sources used in this thesis leads to a logical link between the research and its outcome. As an outcome to the aforementioned data gathering and processing, the predetermined objective of distribution strategy has been fulfilled.

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